

Memorandum

To: CHAIR AND COMMISSIONERS

CTC Meeting: August 13-14, 2003

Reference No.: 3.7
Information Item

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Ref: **STATUS OF CASH SOLUTIONS PROPOSED AT JULY 22, 2003 SPECIAL MEETING**

An update on the status of cash solutions proposed at the July 22, 2003 special meeting will be given at the meeting.



Caltrans August Presentation State Highway Account Balance

Presented to the
California Transportation Commission
August 13, 2003

A vertical strip on the left side of the slide shows a stack of US dollar bills. The top bill is a \$100 bill, and below it, a \$20 bill is visible. The bills are slightly out of focus, showing details like the serial number '622927092G' and the portrait of Benjamin Franklin.

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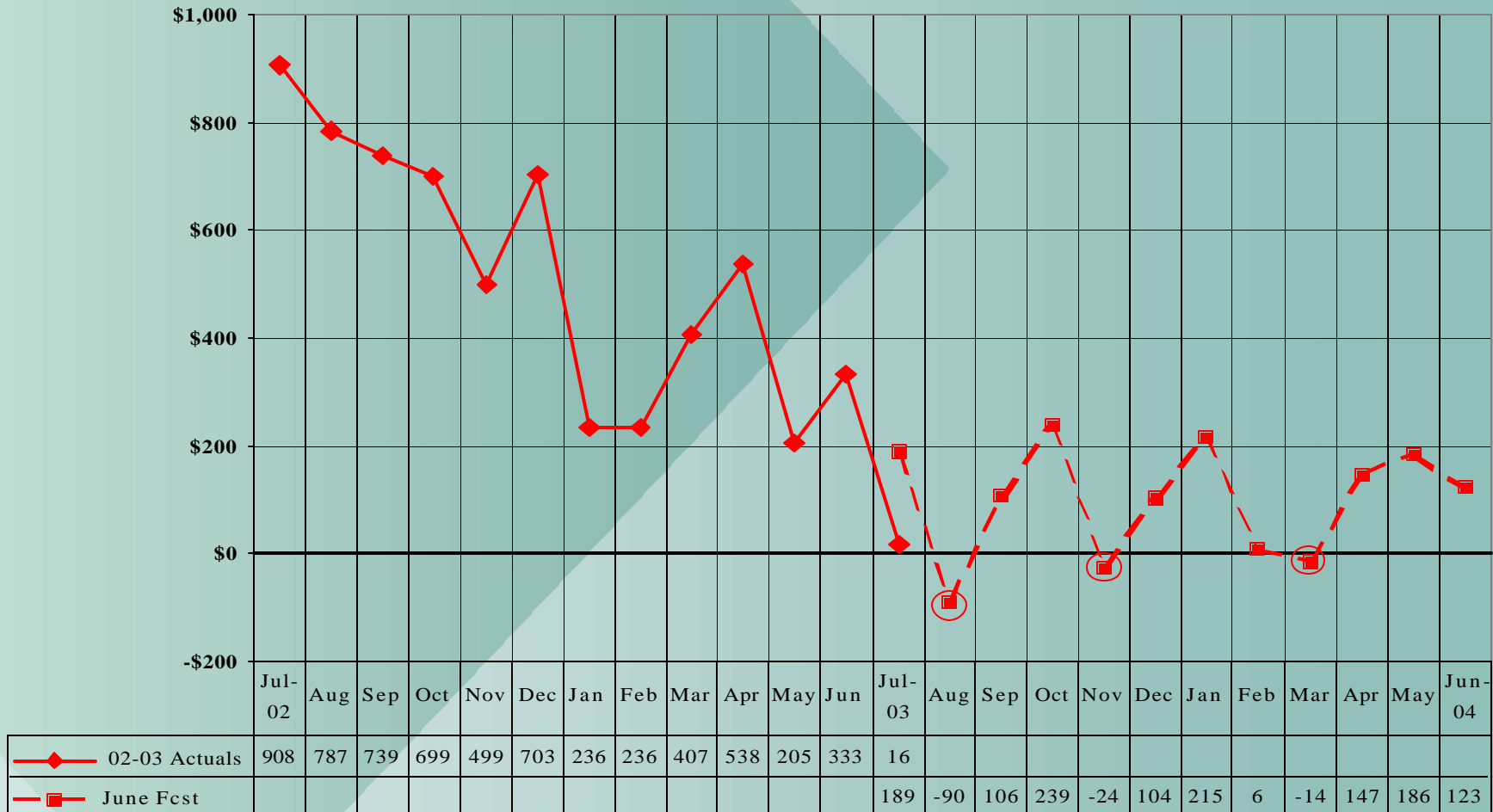
Review of June Forecast

- Projected June 30, 2004 cash balance:
 - Shortfall of \$52M based on full allocation plan.
 - Assumed full \$1.8 billion allocation plan voted on schedule.
 - \$123M balance based on allocations through June.
 - Assumed no further votes in 2003-04.
- SHOPP allocations for 2003-04 can be made.
 - ***Recommended timing of allocations will depend upon the SHA cash balance and Federal budget issues.***
- Even with positive year end balance, monthly cash balances are tenuous.

Review of June Forecast

24-Month State Highway Account

(\$ in millions)



Assumes no new votes in 2003-04

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Review of June Forecast

- Cash shortfalls are forecast for Q1, Q2 and Q3 of 2003-04.
 - Past and current forecasts assume continued borrowing of other Departmental funds.
 - Forecast daily balances as low as negative \$250M-\$400M.
 - Cash shortfall made worse by delay in HUTA transfers.
 - General Fund loan was denied.
 - Due to the Budget impasse and lack of General Fund cash.

Emergency Actions

- At the July 22nd presentation to the CTC, the Department proposed several options to maintain SHA Solvency until enactment of a Budget.
 - Continue internal short-term borrowing.
 - Delay awarding contracts until budget is passed.
 - Suspension of 30 recently awarded contracts.
 - Work with contractors to accept delayed payments.
 - Some Cities and Counties to advance funds to contractors.
 - Utilize Local Assistance Federal Obligation Authority.
 - Temporary funds from several Self-Help Counties.

These actions were estimated to provide sufficient cash through the first quarter including August (a negative cash flow month).

Emergency Actions

- Due to resolution of the budget impasse, some of the emergency actions are no longer necessary.
 - All regular revenue streams will be received.
 - HUTA
 - Weight Fees
 - Contractors and counties will no longer be asked to accept delayed payments or to partially fund projects.
 - Contract awards will resume, but will be monitored closely.
- A \$50M short-term loan from the PTA to the SHA.
- Continue the loan of \$307 million from TCRF.
- \$200 million in Local Assistance OA borrowed. Will be returned after the new FFY 2004 Budget is passed.

Impact of Budget Changes

- Budget includes one-time resources to help mitigate SHA cash flow problems:
 - \$173 M payback from General Fund to SHA
 - Repayment was scheduled for 2004-05.
 - \$100M partial payback from TCRF to SHA
 - Repayment was scheduled for 2005-06.
 - Repayments will be received after September and will help mitigate the next negative month (November).
 - These are one-time cash resources and not part of an ongoing revenue stream.



Look to the Near Future Risks for FY 2003-04

- Operating with a cash balance close to zero carries significant risk. There is no room for:
 - Federal Budget uncertainties.
 - Impact of delay in reauthorization
 - Delay in passage of Federal Budget
 - Increases in Expenditure trends
 - Covering lowest daily balance periods
 - Other unforeseen emergencies
- In the past, the Department has identified \$400 million as an operating cash reserve.

A vertical strip on the left side of the slide shows a stack of US dollar bills. The top bill is a \$100 bill, with the number '100' and the word 'HUNDRED' visible. Below it, a \$20 bill is partially visible, showing the number '20' and the word 'TWENTY'. The bills are slightly out of focus, emphasizing the text on the right.

Look to the Near Future Risks for FY 2003-04

- Proportionately small changes in revenues or expenditures can have a significant impact on cash balances.
- Even a one-percent change in forecast revenue and expenditures can produce a \$200M swing in the 2003-04 ending balance.
- The following chart graphically displays such swings.

Look to the Near Future

2003-04 CASH FORECAST SCENARIOS*

(\$ in millions)

Even a One-percent change can have significant impacts:



*One-Percent Higher= Higher Receipts/ Lower Disbursements
One-Percent Lower = Lower Receipts/Higher Disbursements



Look to the Near Future

Risks for FY 2003-04

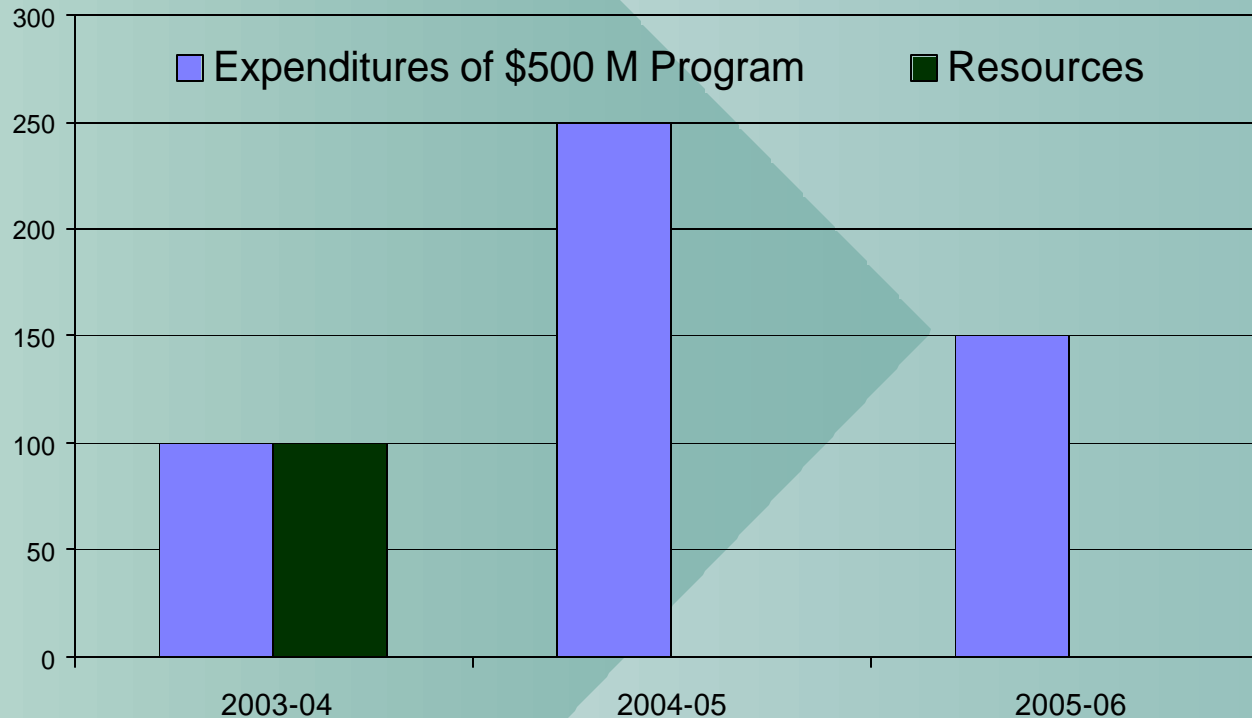
- There is continuing uncertainty concerning 2003-04 allocations.
 - In general, cash balance has followed the forecast trend
 - Results of emergency actions taken to maintain SHA solvency are still being analyzed.
 - Uncertainty about Federal funding make it difficult to forecast revenues for the remainder of the fiscal year.
 - Recent Budget augmentations have not been received yet, and will not be available until at least September.
 - Recent budget augmentations are one-time cash inflows originally scheduled in subsequent fiscal years.



Supporting Future Expenditures

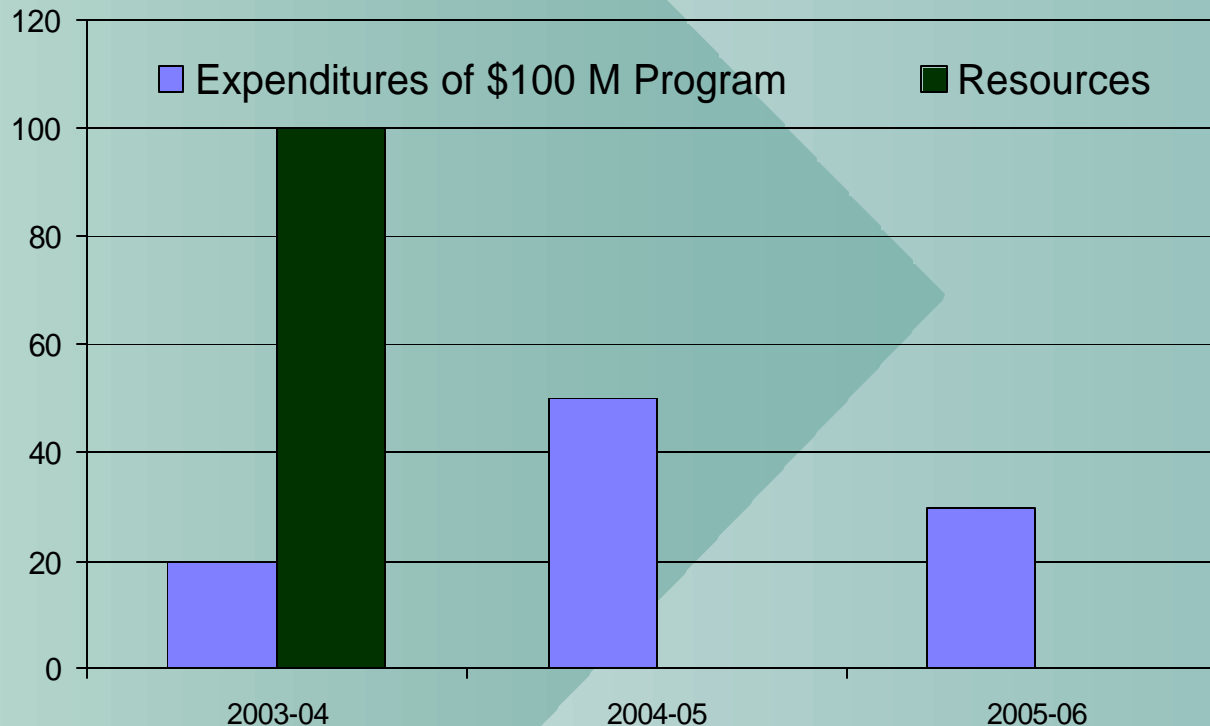
- When a group of projects is allocated, roughly 20% is spent in the first year, 50% in the second year, and 30% in the third year.
- Because of this expenditure pattern, it is often said that \$100 in available resources can support up to \$500 in voted projects. This is an aggressive approach.
- The most important factor is that the 50% second-year cost and 30% third year cost must have revenues to support these costs.
- If future revenues are not assured, prudent policy dictates delaying allocations.
- The following charts show display the impact of allocations.

Obligation of One-Time Resources



- Allocation of One Time Resources at five-to-one:
 - Allocates Expenditures greater than known resources.
 - Need to identify and reserve future resources.
 - Dependent on liquidation of prior commitments to free-up resources in future years.
 - Resources or revenues must increase in future years

Allocation of One-Time resources



- Allocation of One Time Resources with Reserve:
 - Resources support expenditure over three years.
 - Reserves cash until program is expended.
 - Does not maximize use of cash.



Recommendations and Next Steps

- Authorize only safety and emergency projects (with very few exceptions) until expenditures and revenues to support them through FY 2004-05 can be verified.
- Develop a plan that builds and maintains a prudent level of operating cash on hand to avoid the experience of the past six weeks.
 - Reliance on a General Fund loan through FY 2004-05 appears questionable.
 - Continued leverage of all cash receipts on a five-to-one basis is not advisable.
- Two actions are underway that will assist us in achieving this plan.



Recommendations and Next Steps

September Cash Update

- The department will develop a quarterly cash update for the September meeting that addresses:
 - Cash availability in FY 2003-04 and FY 2004-05 for the SHA, PTA and TCRF.
 - The impact of recent state budget one-time augmentations.
 - The amount and timing of the FFY 04 federal budget.
 - Review of expenditure trends presented in the June Forecast.
 - Identify periods of potential cash shortage over the next two years.
- Your input on these and other assumptions is encouraged in developing this cash update.



Recommendations and Next Steps

2004 Fund Estimate

- A fund estimate that forecast revenues and program capacity is due this year.
 - Forecasts resources for the next five years.
 - Takes into account the cash flow of current program commitments.
 - Departmental program and CTC staff are involved in the development of the estimate.
 - Assumptions will be presented next month for your consideration.